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Gina Harrison
Senior Counsel and Director

Washington Office

January 4, 2002

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
The Portals
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: **Ex Parte Notice:** Universal Service, CC Docket No. 96-45; MAG Plan, CC Docket No. 00-256; Local Number Portability, CC Docket No. 95-116

Dear Ms. Salas:

Yesterday, Jill Canfield and Brian O'Hara of NTCA, Jeff Smith of OPASTCO, Ed Kania of USTA and Rick Askoff and I of NECA met with Jordan Goldstein, Senior Legal Advisor to Commissioner Copps and Matthew Brill, Common Carrier Legal Advisor to Commissioner Abernathy, to discuss the matters reflected in the attached material, as well as the status of LNP cost recovery for non-LNP capable LECs. All of the above-listed industry representatives, as well as Stuart Polikoff of OPASTCO, met with Kyle Dixon, Legal Advisor to Chairman Powell, on these same matters, and with Paul Garnett, Greg Guice, Bill Scher, and Jeff Waldau of the Accounting Policy Division, on the issues reflected in the attached material.

In accordance with FCC rules, I am including two copies of this notice. Kindly make it part of the record in these proceedings, and direct any questions to me.

Sincerely,

Gina Harrison
Attachments
Cc: M. Brill
K. Dixon
P. Garnett
J. Goldstein
G. Guice
B. Scher
J. Waldau

UNIVERSAL SERVICE CONTRIBUTION ASSESSMENT MECHANISMS

Presentation by

NECA – NTCA – OPASTCO – USTA

January 3, 2002

Universal Service History

- 4 Periods in the Evolution of Universal Service
  - Pre-1984 ("Pre-Divestiture Period")
  - 1984 to 1989 ("Post-Divestiture Period")
  - 1989 to 1997
  - Current Period

Pre-Divestiture Period

- Universal Service Goals Accomplished via Complex "Separations" Process.
  - Non-traffic sensitive costs of local network allocated based on traffic-sensitive subscriber plant factor ("SPF").
  - In high-cost areas, SPF-based allocations helped keep local service rates affordable.
  - Interstate-allocated costs covered by AT&T via "Division of Revenues" and "settlements" processes.
  - 1970's -- Other IXCs begin to contribute via "ENFIA" charges.

Post-Divestiture Period

- Division of Revenues Process Replaced with "Access Charge" System in 1984.
  - Universal Service costs recovered through mandatory NECA Carrier Common Line (CCL) charge.
  - CCL charges paid by all IXCs.
- Concerns about increasing level of SPF allocations, poor targeting led FCC to revise separations rules:
  - SPF "frozen" at 1981 level.
  - Beginning in 1986, interstate NTS allocations transitioned from frozen SPF to flat twenty-five percent (gross allocator) over 8-year period.
  - New "High Cost Fund"created.

Post-Divestiture Period

- High Cost Fund
  - Offset reductions in NTS allocations caused by SPF transition.
  - Specifically targeted to high-cost companies.
    - 115% and 150% NACPL thresholds.
  - "Expense adjustment" allocates higher percentage of loop costs to interstate.
  - 8 year phase-in mirrored phase-out of SPF.
  - HCF revenue requirements included in NECA Carrier Common Line access charge, paid by IXCs.

Post-Divestiture Period

- Additional Universal Service Programs
  - "Lifeline Assistance" rules adopted in 1985.
    - LA revenue requirements included in CCL charge.
  - "Weighted DEM" rules adopted in 1987.
    - Additional interstate assignments included in local switching access charges.

April 1, 1989

- New "NTS Recovery" rules.
  - LECs permitted to file individual carrier common line rates.
  - Long Term Support mechanism instituted for NECA Common Line Pool members.
  - High Cost and Lifeline Assistance Universal Service amounts removed from CCL Charges.
  - Universal Service costs recovered via monthly tariff charges assessed on largest IXCs based on presubscribed ("1+") lines.

1989-1997

- Line-Based Assessment Mechanism Presents Administrative Challenges
  - 1989 legal challenge.
  - Disputes over accuracy of historical PSL counts, lag times, etc.
    - Complex adjustment mechanisms required
    - Multi-carrier use of Carrier Identification Codes ("CICs") created additional billing disputes.
    - Low volume/line carriers claimed that per line system was inequitable.

Current Period

- 1996 Act leads to changes in USF System.
  - Creates new Schools & Libraries and Rural Health Care programs.
  - Requires that universal service funds be "explicit".
  - Establishes "all carrier" contribution obligation.
- Universal Service Proceeding
  - FCC consolidates various Universal Service mechanisms
  - Requires all carriers to contribute based on interstate end user revenues.
    - Similar to TRS mechanism, in place since 1993.

Changing Assessment Methods?

- Current System a Success Story.
  - Over 2,500 carriers now contribute to USF mechanisms via revenue-based charges.
  - Costs of supporting *interstate* USF mechanisms now shared equitably among most *interstate* carriers.

Shifts in USF Contributions

Carrier Group \Year	Pre-1998	1998	1999	2000
ILECs	0%	15.76%	15.51%	16.20%
CLECs	0%	1.50%	1.81%	1.97%
Payphone	0%	0.11%	0.12%	0.10%
Wireless	0%	5.14%	6.56%	7.71%
IXCs	100%	77.49%	76.00%	74.02%

- Note: LEC share expected to increase further due to SLC increases from CALLS and MAG Orders.

Changing Assessment Methods?

- LEC/CMRS-only payment system plainly unlawful.
  - Act requires "[e]very telecommunications carrier that provides interstate telecommunications services" to contribute on an "equitable and nondiscriminatory basis."
  - Flat-fee methodology unfairly shifts burdens to low-volume users.
  - Gives some interstate carriers a "free ride."

Changing Assessment Methods?

- Alternative systems fraught with administrative problems.
  - Line-based systems plagued by carrier identification and data collection problems.
  - Allocations based on "collected" revenues would cause efficient carriers to subsidize inefficient carriers.

Conclusion:

- All carriers must contribute on an equitable basis.
- Line-based mechanisms impose significant administrative burdens and are unfair to low-volume users.
- Revenue-based assessment mechanism should be left in place.
  - Continue using billed revenues rather than collected revenues.

MAG ORDER

PETITION FOR RECONSIDERATION AND/OR CLARIFICATION

- NECA 12/14/01 *Ex Parte* identified anomalies that may prevent successful implementation of the ICLS mechanism.
    - Data reporting requirements set forth in the rules may not provide the Administrator with sufficient information to calculate ICLS amounts.
    - Data reporting deadlines specified in the revised rules do not provide rate-of-return carriers with enough time to calculate the required information.
- Commission can resolve these issues by making minor modifications to sections 54.903(a)(3) and 54.903(a)(4) of its rules. Draft rule language attached to NECA *Ex Parte*.
- NECA *Ex Parte* incorporated in Petition for Reconsideration filed 12/31/01
- The Commission must act promptly to resolve these issues. If the current rules are left in place, it is not clear whether the ICLS mechanism can be implemented in the coming months.